



FedFin Client Report

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Senate Banking Targets China's Crypto, Data Controls

Client Report: CHINA17

Executive Summary

While largely focused on countering fentanyl, today's Senate Banking hearing on China, saw Committee Democrats try to ascertain the details of a potential outbound investment [executive order](#) and Republicans addressing what they believe to be shortcomings in data privacy, AML regulation, and sanctions policy. Despite broad agreement on the national security and economic threat of China, the only apparent Congressional actions address crypto and data privacy. Sen. Lummis (R-WY) announced she will be introducing a bill with Sens. Wyden (D-OR), Hagerty (R-TN), and Rubio (R-FL) to forbid the sale of personal data to foreign adversaries; review of text will be necessary to determine the bill's impact on transborder data flows with particular regard to the payment system. Sen. Lummis will also reintroduce her broad crypto bill ([see FSM Report CRYPTO28](#)) with Sen. Gillibrand (D-NY), adding a new title on combatting illicit finance. Sen. Warren (D-MA) said she will be reintroducing her digital asset AML bill with Sen. Marshall (R-MO) that would close crypto-related gaps in the AML framework.

Analysis

Opening Statements

Chairman Brown (D-OH) highlighted past bipartisan efforts to counter risks posed by China and called again for bipartisan action against human rights abuses, IP theft, and fentanyl. He listed a number of proposals on ownership of farmland, communications technology, and personal data controls, but refrained from endorsing any of them. Ranking Member Scott (R-SC) emphasized the importance of protecting American innovation and combatting Chinese economic aggression through the careful use of sanctions, export controls, and investment screening.

Testimony

Elizabeth Rosenberg, Treasury's Assistant Secretary for Terrorist Financing and Financial Crimes, called for the U.S. to strengthen its international financial crime standards and to coordinate with its partners to do the same. Paul Rosen, Treasury's Assistant Secretary for

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Investment Security, stressed the importance of preventing U.S. outbound investments from advancing specific technologies with significant national security implications. Thea Rozman Kendler, Commerce's Assistant Secretary for Export Administration, highlighted the merits and efficacy of dual-use technology export controls. Matthew Axelrod, Commerce's Assistant Secretary for Export Enforcement, reviewed updates to export enforcement policy and stressed working with international partners to enhance enforcement.

Q&A

- **Digital Assets:** Saying that many Chinese drug labs are paid by Mexican cartels in crypto, Sen Warren asked if her bill with Sen. Marshall would give regulators stronger tools to combat crime such as fentanyl trafficking and money laundering. Ms. Rosenberg stated that it would and hoped that international partners do the same. Sen Smith (D-MN) asked to what extent bad actors have exploited crypto's regulatory gaps to evade AML rules. Ms. Rosenberg said they did, noting that one of the U.S.'s biggest crypto-related vulnerabilities is insufficient rules or enforcement in foreign jurisdictions. Sen. Lummis asked if digital assets are currently covered by AML laws and if Treasury needs new legal authorities or resources to address crypto related gaps. Ms. Rosenberg replied that financial institutions offering digital assets are currently covered and that she would work with the Senator to outline Treasury's needs.
- **Outbound Investment Controls:** Chairman Brown asked how outbound investment controls could address national security concerns; Mr. Rosen stated that Treasury currently does not have an effective tool to prevent U.S. investment from aiding the development of technologies that counter U.S. interests. Sen. Menendez (D-NJ) asked Mr. Rosen how such a tool would be scoped; he responded that Treasury would seek to target U.S. investments that come with technical knowledge and expertise that could be exploited, such as advanced chips, artificial intelligence, and quantum computing. Sen. Van Hollen (D-MD) asked what principles Treasury applies when considering the controls; Mr. Rosen replied that Treasury is taking a targeted approach that's both understandable and effective. Mr. Rosen gave no specifics when asked by Sen. Fetterman (D-PA) for a timeline on the potential executive order.
- **SWIFT:** Sen. Vance (R-OH) argued that the Administration's Ukraine policy has been a "disaster" because Russia's economy has barely shrunk and asked if the Russian SWIFT alternative has grown. Ms. Rosenberg stated it has but noted that Russia has been developing the system since the first round of sanctions in 2014 and that Treasury is monitoring the issue.
- **Investment Funds:** Sen. Reed (D-RI) asked if Treasury has observed individuals and companies with ties to the CCP investing in U.S. hedge funds and private equity funds. Ms. Rosenberg replied that private funds – especially investment advisors – are a key vulnerability.

- **AML Regulatory Gaps:** Sen. Daines (R-MT) asked how the Corporate Transparency Act and AML Act fail to provide necessary tools to combat illicit financial flows. Ms. Rosenberg stated that the biggest vulnerability is the “anonymous companies problem” and echoed her earlier emphasis on investment advisors.
- **Sanctions:** Sen. Warnock (D-GA) emphasized the importance of considering the impact that sanctions have on the working class in targeted countries and asked how Treasury measures the effectiveness of sanctions targeting decision makers. Ms. Rosenberg stated that the goal of Russia sanctions was to deprive Russia of war material and financing, not to destroy its economy. She also stressed the importance of working with Congress to define sanctions objectives.